

**ASHLEY VALLEY SEWER MANAGEMENT BOARD**

**ANNUAL FINANCIAL REPORT**

**December 31, 2005**

**Ashley Valley Sewer Management Board  
P.O. Box 426  
Vernal, UT 84078  
(435) 789-9805**

# ASHLEY VALLEY SEWER MANAGEMENT BOARD

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# CALDWELL, COOMBS & FOLEY, LLP

*Certified Public Accountants*

92 North Vernal Avenue  
Vernal, Utah 84078-2104  
(435) 789-0961  
Fax (435) 789-0340



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Ashley Valley Sewer Management Board  
Vernal, Utah

We have audited the accompanying basic financial statements of the Ashley Valley Sewer Management Board, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of Ashley Valley Sewer Management Board management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information was audited by other auditors who expressed an unqualified opinion on the financial statements in their report dated January 20, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Ashley Valley Sewer Management Board, as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2006 on our consideration of Ashley Valley Sewer Management Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Caldwell, Coombs & Foley, LLP*

Vernal, Utah  
July 14, 2006

## ASHLEY VALLEY SEWER MANAGEMENT BOARD

### Management's Discussion and Analysis December 31, 2005 and 2004

As management of Ashley Valley Sewer Management Board we present to the readers of our financial statements this discussion and analysis of the Board's financial performance for the fiscal years ended December 31, 2005 and 2004.

#### FINANCIAL STATEMENTS

The Board's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States, promulgated by the Governmental Accounting Standards Board (GASB). The Board reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the Board's significant accounting policies.

	2005	2004	2003
<b>ASSETS</b>			
Current assets	\$ 1,150,270	\$ 4,129,741	\$ 4,355,475
Restricted assets	968,516	968,308	987,472
Long-term deposits and investments	3,055,338		
Capital assets, net	19,395,395	20,127,854	20,711,763
Other assets	1,273	1,273	1,273
Total assets	<u>24,570,792</u>	<u>25,227,176</u>	<u>26,055,983</u>
<b>LIABILITIES</b>			
Current liabilities	439,877	388,342	424,270
Long-term debt	5,284,000	5,604,000	5,920,000
Total liabilities	<u>5,723,877</u>	<u>5,992,342</u>	<u>6,344,270</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	13,730,043	14,143,350	14,411,211
Restricted	968,516	968,308	987,472
Unrestricted	4,148,356	4,123,176	4,313,030
Total net assets	<u>18,846,915</u>	<u>19,234,834</u>	<u>19,711,713</u>
Total liabilities and net assets	<u>\$ 24,570,792</u>	<u>\$ 25,227,176</u>	<u>\$ 26,055,983</u>

#### **Financial Analysis**

The decrease of approximately \$2,979,000 (72%) in current assets in 2005 as compared to 2004 is primarily due to reclassification of deposits in long-term certificates of deposit. The decrease of approximately \$226,000 (5.2%) in current assets in 2004 as compared to 2003 is mostly attributed to decreases in cash.

The decrease of approximately \$732,000 (3.6%) in capital assets at 2005 as compared to 2004 and the decrease of approximately \$584,000 (2.8%) at 2004 as compared to 2003 is due to the continuing addition, replacement, and improvement of the Board's lift station, trunkline, and waste water treatment facility, less the associated depreciation cost of approximately \$813,000 and \$808,000 for 2005 and 2004, respectively.

The approximate increase of \$51,000 (13%) in current liabilities at 2005 as compared to 2004 is mainly due to increases in trade accounts payable and accrued leave. The decrease of approximately \$ 36,000 (8.5%) at 2004 as compared to 2003 is mainly due to decreases in account payable and construction retainage payable.

Decreases in long-term debt from 2003 to 2004 and 2004 to 2005 are due to scheduled bond payments paid.

#### **CHANGE IN NET ASSETS**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 1,080,437	\$ 1,049,885	\$ 1,015,954
Operating expenses	(1,605,141)	(1,587,403)	(1,442,398)
Operating loss	(524,704)	(537,518)	(426,444)
Non-operating revenues	136,785	60,639	18,052
Net income	(387,919)	(476,879)	(408,392)
Total net assets			
Beginning of year	19,234,834	19,711,713	20,120,105
End of year	<u>\$ 18,846,915</u>	<u>\$ 19,234,834</u>	<u>\$ 19,711,713</u>

#### **SUMMARY OF REVENUES**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating:			
User fees from participating agencies	\$ 1,060,180	\$ 1,029,380	\$ 1,004,059
Miscellaneous income	20,257	20,505	11,895
Total operating	<u>1,080,437</u>	<u>1,049,885</u>	<u>1,015,954</u>
Non-operating:			
Interest income	165,919	131,375	91,734
Capital contributions	40,000		
Total non-operating	<u>205,919</u>	<u>131,375</u>	<u>91,734</u>
Total revenues	<u>\$ 1,286,356</u>	<u>\$ 1,181,260</u>	<u>\$ 1,107,688</u>

The increase of approximately \$30,000 (2.9%) in operating revenue during 2005 as compared to 2004 is due to an increased number of customers of the participating agencies and increased volume in septic dump fees.

The increases and decreases in interest between 2003 and 2005 are entirely due to changes in interest rates earned and amounts invested in non-interest bearing accounts versus interest bearing accounts. The Board received a capital contribution (grant) in 2005 in the amount \$40,000 to aid in the construction of a sludge drying pad.

## **SUMMARY OF EXPENSES**

	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Operating:			
Direct operating and maintenance	\$ 791,776	\$ 778,866	\$ 651,878
Depreciation	<u>813,365</u>	<u>808,537</u>	<u>790,520</u>
Total operating expenses	<u>1,605,141</u>	<u>1,587,403</u>	<u>1,442,398</u>
 Non-operating expenses	 <u>69,134</u>	 <u>70,736</u>	 <u>73,682</u>
 Total expenses	 <u><u>\$ 1,674,275</u></u>	 <u><u>\$ 1,658,139</u></u>	 <u><u>\$ 1,516,080</u></u>

The increase of approximately \$18,000 (1.1%) in operating expense during 2005 as compared to 2004 and the increase of approximately \$145,000 (10.1%) during 2004 as compared to 2003 are mainly due to increases in utilities costs, system repairs and maintenance of costs, and payroll and payroll-related costs.

## **CAPITAL ASSETS ACTIVITY**

During 2005, the Board expended approximately \$106,000 on capital assets. The most significant expenditures were for the sludge drying pad, transportation equipment, and machinery and equipment.

During 2004, the Board expended approximately \$225,000 on capital assets. The most significant expenditures were for trunkline rehabilitation and sludge drying pads.

## **REQUESTS FOR INFORMATION**

This financial report is designed to give its readers a general overview of the Board's finances. Questions regarding any information contained in this report, or requests for additional information, should be addressed to the General Manager, P.O. Box 426, Vernal, Utah 84078.

# ASHLEY VALLEY SEWER MANAGEMENT BOARD

## Statements of Net Assets December 31, 2005 and 2004

	2005	2004
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 848,537	\$ 3,848,429
Receivable from participating agencies	264,369	259,174
Other accounts receivable	2,115	
Accrued interest receivable	11,365	
Prepaid expenses	23,884	22,138
Total current assets	<u>1,150,270</u>	<u>4,129,741</u>
<b>RESTRICTED ASSETS</b>		
Cash held for bond sinking fund requirements	968,516	968,308
Total restricted assets	<u>968,516</u>	<u>968,308</u>
<b>LONG-TERM DEPOSITS &amp; INVESTMENTS</b>		
Long-term cash deposits	3,055,338	
Total long-term deposits & investments	<u>3,055,338</u>	<u>-</u>
<b>CAPITAL ASSETS, at cost</b>		
Non-depreciable capital assets	137,750	137,750
Depreciable capital assets, net	19,257,645	19,990,104
Net capital assets	<u>19,395,395</u>	<u>20,127,854</u>
<b>OTHER ASSETS</b>		
Deposits	1,273	1,273
Total other assets	<u>1,273</u>	<u>1,273</u>
<b>Total assets</b>	<u>\$ 24,570,792</u>	<u>\$ 25,227,176</u>

The notes to the financial statements are an integral part of this statement.



# ASHLEY VALLEY SEWER MANAGEMENT BOARD

## Statements of Net Assets December 31, 2005 and 2004

	2005	2004
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 42,589	\$ 7,160
Current maturities of long-term debt	320,000	316,000
Accrued payroll taxes	158	678
Accrued bond interest	61,352	64,504
Accrued leave	15,778	-
Total current liabilities	<u>439,877</u>	<u>388,342</u>
<b>LONG-TERM DEBT</b>		
Bonds payable	5,604,000	5,920,000
Less current maturities	(320,000)	(316,000)
Net long-term debt	<u>5,284,000</u>	<u>5,604,000</u>
Total liabilities	<u>5,723,877</u>	<u>5,992,342</u>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	13,730,043	14,143,350
Restricted for:		
Debt Service	968,516	968,308
Unrestricted	4,148,356	4,123,176
Total net assets	<u>18,846,915</u>	<u>19,234,834</u>
Total liabilities and net assets	<u>\$ 24,570,792</u>	<u>\$ 25,227,176</u>

The notes to the financial statements are an integral part of this statement.

# ASHLEY VALLEY SEWER MANAGEMENT BOARD

## Statements of Revenues, Expenses and Changes in Net Assets For the Year Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES (pledged as security for revenue bonds)		
Sewer service charges from participating agencies	\$ 1,060,180	\$ 1,029,380
Septic dump fees	16,880	19,470
Farm lease revenue	755	1,035
Other income	2,622	
Total operating revenues	<u>1,080,437</u>	<u>1,049,885</u>
OPERATING EXPENSES BEFORE DEPRECIATION	<u>791,776</u>	<u>778,866</u>
NET OPERATING INCOME BEFORE DEPRECIATION	288,661	271,019
DEPRECIATION	<u>813,365</u>	<u>808,537</u>
NET LOSS FROM OPERATIONS	<u>(524,704)</u>	<u>(537,518)</u>
NON-OPERATING INCOME AND (EXPENSE)		
Interest income	165,919	131,375
Bond interest expense	(67,888)	(70,736)
Gain (loss) on sale of assets	(1,246)	
Total non-operating income and (expense)	<u>96,785</u>	<u>60,639</u>
DECREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(427,919)	(476,879)
Contributed capital	<u>40,000</u>	<u>-</u>
DECREASE IN NET ASSETS	(387,919)	(476,879)
NET ASSETS, BEGINNING OF THE YEAR	<u>19,234,834</u>	<u>19,711,713</u>
NET ASSETS, END OF THE YEAR	<u>\$ 18,846,915</u>	<u>\$ 19,234,834</u>

The notes to the financial statements are an integral part of this statement.

# ASHLEY VALLEY SEWER MANAGEMENT BOARD

## Statements of Cash Flows

For the Year Ended December 31, 2005 and 2004

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from participating agencies	\$ 1,054,985	\$ 1,019,970
Payments to suppliers of goods and services	(455,764)	(530,619)
Payments to employees for services	(287,071)	(277,628)
Other receipts	18,142	20,505
Total cash flows from operating activities	<u>330,292</u>	<u>232,228</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions received	40,000	
Additions to property, plant, equipment and construction in progress	(106,350)	(224,628)
Proceeds from the sale of capital assets	24,200	
Principal payments on bonds payable	(316,000)	(312,000)
Interest paid on long-term debt	(71,040)	(74,784)
Construction retainage paid		(19,420)
Net cash used by capital and related financial activities	<u>(429,190)</u>	<u>(630,832)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income received	154,552	131,375
Long-term cash deposits	(4,023,854)	
Net cash provided by investing activities	<u>(3,869,302)</u>	<u>131,375</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,968,200)	(267,229)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>4,816,737</u>	<u>5,083,966</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 848,537</u>	<u>\$ 4,816,737</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:</b>		
Unrestricted cash and cash equivalents	\$ 848,537	\$ 3,848,429
Restricted cash and cash equivalents		968,308
Cash held for bond sinking fund requirements		
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 848,537</u>	<u>\$ 4,816,737</u>

The notes to the financial statements are an integral part of this statement.

**ASHLEY VALLEY SEWER MANAGEMENT BOARD****Statements of Cash Flows****For the Year Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net loss from operations	\$ (524,704)	\$ (537,518)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:		
Depreciation	813,365	808,537
(Increase) decrease in:		
Receivable from participating agencies	(5,195)	(9,410)
Other accounts receivable	(2,115)	
Prepaid expenses	(1,746)	(12,921)
Increase (decrease) in:		
Accounts payable	35,429	(14,444)
Accrued payroll	15,778	-
Accrued payroll taxes	(520)	(2,016)
Net cash provided by operating activities	<u>\$ 330,292</u>	<u>\$ 232,228</u>

The notes to the financial statements are an integral part of this statement.

## ASHLEY VALLEY SEWER MANAGEMENT BOARD

### Notes to the Financial Statements December 31, 2005 and 2004

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#### 1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

##### **History and Business Activity**

Ashley Valley Sewer Management Board (the "Board") was established in 1980 by authority of the Utah "Interlocal Co-operation Act" by Vernal City, Ashley Valley Water and Sewer Improvement District, and Maeser Water and Sewer Improvement District to provide a sewage treatment facility to service their respective collections systems.

The Board is governed by a six-member Board of Trustees. Each of the three Participating Agencies to the interlocal agreement appoints two members to the Board of Trustees.

##### **Reporting Entity**

Based on the criterion identified in Governmental Accounting Standards Board Statement No. 14, Management has determined that the board is not a component unit of another government entity, nor should the Board include in its basic statements, other government entities as component units.

##### **Basis of Accounting**

The Board is a governmental unit that is accounted for as a business-type activity. The Board's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Board has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable pronouncements of the Governmental Accounting Standards Board ("GASB") as well as any applicable pronouncements of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB"), and Accounting Research Bulletins ("ARB"), issued after November 30, 1989.

The accounting and financial reporting treatment applied to the Board is determined by its measurement focus. The transactions of the Board are accounted for on a flow-of-economic-resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e. total assets net of total liabilities) are segregated into the following categories: invested in capital assets, net of related debt; restricted for debt service; and restricted components.

##### **Net Assets**

The Board's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of the Board's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints imposed by creditors (such as debt covenants and/or sinking fund requirements).
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "invested in capital assets, net or related debt" or "restricted."

##### **Budgetary Accounting**

The Board is required by state statute to adopt a budget prior to the beginning of each fiscal

year. The Board prepares and reports its budget on a basis consistent with GAAP with the following exceptions:

- Bond principal payments are budgeted as nonoperating expenditures.
- Depreciation is not budgeted.
- Capital expenditures are budgeted as nonoperating expenditures.

#### **Classification of Revenue**

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions such as sewer service charges, manhole dump fees, and farm lease revenue.
- *Non-operating revenues* – Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34. Examples of non-operating revenues would be contributed capital, interest income, and gain or loss on sale of assets.

#### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, all investment instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

#### **Bad Debts and Allowance for Doubtful Accounts**

The Board does not record bad debt expense or an allowance for doubtful accounts on delinquent fees. The participating agencies pay in full for all users within their jurisdiction and are responsible to collect unpaid fees, charges or property taxes.

#### **Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in calculating depreciation expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

#### **Capital Assets**

Capital assets are defined by the Board as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Costs include materials, transportation, and interest on funds borrowed to finance construction. Capital assets are categorized as either nondepreciable or depreciable capital assets.

- *Nondepreciable capital assets* – This category includes inexhaustible capital assets, such as land and land improvements.
- *Depreciable capital assets* – Assets in this category included all exhaustible capital assets. These assets are recorded at cost, and contributed assets are valued at their estimated fair market value on the date of the contribution. Additions and improvements that significantly extend the useful life of an asset are capitalized, whereas maintenance and repair costs are charged to current period operating expenses. These assets are depreciated over their remaining useful lives.

Depreciation has been calculated over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

- Mechanical sewer plant .....5-40 years
- Lift stations and sewer lines .....15-50 years
- Machinery and equipment .....5-15 years
- Transportation equipment .....5-10 years
- Land improvements .....15 years

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements or revenues, expenses, and changes in net assets. Construction in progress primarily relates to upgrades of existing facilities.

#### **Interest Capitalization**

The Board follows Financial Accounting Standards Board Statement No. 62 concerning the capitalization of interest for qualifying assets. For the years ended December 31, 2005 and 2004, no interest was capitalized.

## **2. DEPOSITS AND INVESTMENTS**

Deposits and investments for local governments are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the Board's exposure to various risks related to its cash management activities.

#### **Custodial Credit Risk**

*Deposits* – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Board's deposits may not be recovered. The Board's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Board to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005 the carrying amount of the Board's deposits was \$4,072,587 and the bank balance was \$4,086,365. Of the bank balance, \$262,486 was covered by federal deposit insurance. The remaining balance, \$3,823,879, was uninsured and uncollateralized.

#### **Credit Risk**

*Investments* – Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Board's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The Board is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

As of December 31, 2005 the Board had investments of \$799,804 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Board manages its exposure to declines in fair value by

investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

### 3. CAPITAL ASSETS

The changes in property, plant, and equipment for the year ended December 31, 2005 are as follows:

	<u>12/31/2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2005</u>
Nondepreciable capital assets:				
Land	\$ 137,750			\$ 137,750
Construction in progress	-			-
Total nondepreciable capital assets	<u>137,750</u>	<u>-</u>	<u>-</u>	<u>137,750</u>
Depreciable capital assets:				
Mechanical sewer plant	17,383,027	71,062		17,454,089
Lift stations and sewer lines	6,791,665			6,791,665
Machinery and equipment	672,323	12,565		684,888
Mobile equipment	276,387	22,723	(61,962)	237,148
Land improvements	<u>27,061</u>			<u>27,061</u>
Total depreciable capital assets at historical cost	<u>25,150,463</u>	<u>106,350</u>	<u>(61,962)</u>	<u>25,194,851</u>
Less accumulated depreciation for:				
Mechanical sewer plant	(2,194,823)	(617,523)	2	(2,812,344)
Lift stations and sewer lines	(2,564,818)	(139,500)		(2,704,318)
Machinery and equipment	(287,709)	(23,295)		(311,004)
Mobile equipment	(108,499)	(31,243)	36,516	(103,226)
Land improvements	<u>(4,510)</u>	<u>(1,804)</u>		<u>(6,314)</u>
Total accumulated depreciation	<u>(5,160,359)</u>	<u>(813,365)</u>	<u>36,518</u>	<u>(5,937,206)</u>
Depreciable capital assets, net	<u>19,990,104</u>	<u>(707,015)</u>	<u>(25,444)</u>	<u>19,257,645</u>
Total capital assets, net	<u>\$ 20,127,854</u>	<u>\$ (707,015)</u>	<u>\$ (25,444)</u>	<u>\$ 19,395,395</u>

The changes in property, plant, and equipment for the year ended December 31, 2004 are as follows:



	<u>12/31/2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2004</u>
Nondepreciable capital assets:				
Land	\$ 137,750			\$ 137,750
Construction in progress	7,747		(7,747)	-
Total nondepreciable capital assets	<u>145,497</u>	<u>-</u>	<u>(7,747)</u>	<u>137,750</u>
Depreciable capital assets:				
Mechanical sewer plant	17,309,458	73,569		17,383,027
Lift stations and sewer lines	6,656,105	135,560		6,791,665
Machinery and equipment	649,326	22,997		672,323
Mobile equipment	276,138	249		276,387
Land improvements	27,061	-		27,061
Total depreciable capital assets at historical cost	<u>24,918,088</u>	<u>232,375</u>	<u>-</u>	<u>25,150,463</u>
Less accumulated depreciation for:				
Mechanical sewer plant	(1,580,266)	(614,557)		(2,194,823)
Lift stations and sewer lines	(2,426,768)	(138,050)		(2,564,818)
Machinery and equipment	(267,283)	(20,426)		(287,709)
Mobile equipment	(74,799)	(33,700)		(108,499)
Land improvements	(2,706)	(1,804)		(4,510)
Total accumulated depreciation	<u>(4,351,822)</u>	<u>(808,537)</u>	<u>-</u>	<u>(5,160,359)</u>
Depreciable capital assets, net	<u>20,566,266</u>	<u>(576,162)</u>	<u>-</u>	<u>19,990,104</u>
Total capital assets, net	<u>\$ 20,711,763</u>	<u>\$ (576,162)</u>	<u>\$ (7,747)</u>	<u>\$ 20,127,854</u>

#### 4. LONG-TERM DEBT

##### **Series 1999 Taxable Sewer Revenue Bonds**

In 1999 the Board issued revenue bonds totaling \$6,846,000. The proceeds of the bonds were used to help finance the construction of the mechanical sewer treatment facility. These bonds bear interest at 1.2%, and required principal and interest debt service payments are due on February 1<sup>st</sup> of each year through 2021.

Changes to the Board's long-term debt are as follows:

	<u>2005</u>	<u>2004</u>
Total long-term debt at beginning of year	\$ 5,920,000	\$ 6,232,000
Revenue bond retirements	<u>(316,000)</u>	<u>(312,000)</u>
Total long-term debt at end of year	5,604,000	5,920,000
Less current portion	<u>(320,000)</u>	<u>(316,000)</u>
Noncurrent portion of long-term debt	<u>\$ 5,284,000</u>	<u>\$ 5,604,000</u>

Future debt service payments are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	320,000	67,248	387,248
2007	324,000	63,408	387,408
2008	328,000	59,520	387,520
2009	332,000	55,584	387,584
2010	335,000	51,600	386,600
2011-2015	1,739,000	196,668	1,935,668
2016-2020	1,844,000	89,808	1,933,808
2021	<u>382,000</u>	<u>4,584</u>	<u>386,584</u>
Total bonds payable	<u>\$ 5,604,000</u>	<u>\$ 588,420</u>	<u>\$ 6,192,420</u>

The 1999 Series Taxable Sewer Revenue Bonds require a "Sinking Fund" consisting of a "Bond Account," a "Reserve Account," and an "Emergency Reserve Account." The required balance in the "Bond Account" is \$387,248 and \$387,040 at December 31, 2005 and 2004, respectively. The required balances in the "Reserve Account" and the "Emergency Reserve Account" are \$387,512 and \$193,756, respectively. The Board funded the sinking fund with the required amounts.

These bonds are secured by a first lien on net revenues earned by the Board. Net revenues are defined in the bond agreements. The Board is required to establish user fees and rates that will yield net revenues equal to at least 125% of the average Annual Debt Service.

## 5. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Board has obtained commercial insurance coverage to reduce the risk of loss to a level acceptable by the Board.

The Board's insurance policies in force at December 31, 2005 are as follows:

Type of Policy	Policy No.	Name of Company	Policy Period
General Liability Auto Bodily Injury Auto Property Damage Personal Injury Protection Underinsured Motorist Uninsured Motorist No-Fault Sewer Clean-up	10120-GL229	Utah Local Governments Trust	10/1/05 to 10/1/06
Property	PX809764	Utah Local Governments Trust	7/1/05 to 7/1/06
Fidelity Bond	UP01169396	Old Republic Surety Company	1/1/05 to 12/31/05
Workers Compensation	10120-WC	Utah Local Governments Trust	1/1/05 to 1/1/06

Settled claims have not exceeded commercial excess coverage in any of the past three years.

#### 8. LOCAL GOVERNMENTAL – COST SHARING PENSION PLAN

##### **Plan Description**

The Board contributes to the Local Governmental Contributory Retirement System (Contributory System) and the Local Governmental Noncontributory Retirement System (Noncontributory System) of the Utah Retirement Systems, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the directions of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The Board also maintains a defined contribution 401(k) plan. The plan is available to all employees who meet certain age and length-of-service eligibility requirements. Voluntary salary deferred contributions may be made by all eligible employees.

##### **Funding Policy**

Plan members are required to contribute a percent of the covered salary to the respective systems to which they belong. The Board is required to contribute a percent of covered salary to the respective Systems. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board. The contribution rates in effect for calendar 2005 were as follows:

Utah Retirement Systems	Paid by Employee	Paid by Employer for Employee	Employer Contribution Rates
<u>January 2005 - June 2005</u>			
Noncontributory System:			
Local Government Division	N/A	N/A	11.090%
<u>July 2005 - December 2005</u>			
Noncontributory System:			
Local Government Division	N/A	N/A	11.090%

### **Contributions**

The Board's contributions to the various systems for the year ended December 31, 2005 and the two previous years were as follows:

System	Year Ended 12/31	Employee Paid Contributions	Employer Paid for Employee Contributions	Employer Contributions	Salary Subject to Retirement Contributions
Noncontributory System:					
Local Government Division					
	2005			28,370	255,818
	2004	-	-	25,773	248,263
	2003	-	-	20,668	225,683
Defined Contribution System					
401(k) Plan					
	2005	6,395	-	N/A	N/A
	2004	6,025	-	N/A	N/A
	2003	7,251	-	N/A	N/A

### **7. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation.

### **8. RELATED PARTY TRANSACTIONS**

Board members and certain members of management live within the Board's boundaries and are customers of the participating entities.

# CALDWELL, COOMBS & FOLEY, LLP

*Certified Public Accountants*

92 North Vernal Avenue  
Vernal, Utah 84078-2104  
(435) 789-0961  
Fax (435) 789-0340

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Ashley Valley Sewer Management Board  
Vernal, Utah

We have audited the basic financial statements of Ashley Valley Sewer Management Board, as of and for the year ended December 31, 2005, and have issued our report thereon dated July 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Ashley Valley Sewer Management Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ashley Valley Sewer Management Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly,

we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, management, others within the organization, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Caldwell, Coombs & Foley, LLP*

Vernal, Utah  
July 8, 2006

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*Certified Public Accountants*

92 North Vernal Avenue  
Vernal, Utah 84078-2104  
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Fax (435) 789-0340

## **INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Ashley Valley Sewer Management Board  
Vernal, Utah

We have audited the basic financial statements of Ashley Valley Sewer Management Board as of and for the year ended December 31, 2005, and have issued our report thereon dated July 8, 2006. The District received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of the District's financial statements.)

### **Community Impact Grants (Department of Community and Economic Development)**

Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt  
Purchasing Requirements  
Other General Compliance Issues

Cash Management  
Budgetary Compliance

The District did not receive any major State grants during the year ended December 31, 2005.

The management of Ashley Valley Sewer Management Board is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Ashley Valley Sewer Management Board  
Auditor's Report on State Compliance (continued)

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion Ashley Valley Sewer Management Board complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

*Caldwell, Coombs & Foley, LLP*

Vernal, Utah  
July 8, 2006